

**EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**  
**MINUTES OF THE MAY 17, 2006 PENSION BOARD MEETING**

1. Call to Order

Chairman Walter Lanier called the meeting to order at 8:40 a.m. in the Gordon Park Pavilion at 2828 North Humboldt Boulevard, Milwaukee, Wisconsin 53212.

2. Roll Call

Members Present:

Donald Cohen  
Walter Lanier  
John Martin  
Marilyn Mayr  
Michael Ostermeyer  
John Parish  
Dean Roepke

Members Excused:

Linda Bedford  
Thomas Weber

Others Present:

Mark Grady, Principal Assistant Corporation Counsel  
Jack Hohrein, ERS Manager and Pension Board Secretary  
Gordon Mueller, ERS Fiscal Officer  
Vivian Aikin, ERS Administrative Specialist  
Ann To, Milwaukee County  
James H. Martin, Fiscal and Management Analyst, Department of Administrative Services  
Steven Huff, Reinhart Boerner Van Deuren s.c.  
Leigh Riley, Foley & Lardner LLP  
Chris Trebatoski, Gonzalez, Saggio & Harlan LLP  
Brad Blalock, Mercer Investment Consulting  
Kristin Finney-Cooke, Mercer Investment Consulting  
Charles McDonald, Mercer Investment Consulting  
Barrett Rodriguez, Vitech Systems  
Kim Nicholl, Buck Consultants  
Matthew Strom, Buck Consultants  
Oleg Sydyak, Buck Consultants  
Cliff Van Beek, Retiree  
Ken Loeffel, Retiree  
Michael Howden, Retiree  
Florence Ignarski, Retiree  
Louis Metz, Retiree  
Nancy Beck-Metz, Retiree

3. Approval of Minutes of April 19, 2006 Meeting

**The Board reviewed and approved the minutes of the April 19, 2006 Pension Board meeting 8-0-1, with the Chairman abstaining due to his absence.  
Motion by Mr. Martin, seconded by Dr. Roepke.**

4. Report of Retirement System Manager

(a) Ratification of Retirements Granted

Mr. Hohrein presented the schedule of Retirements Granted for the prior month's retirements and asked the Board to review them. He noted that back DROP payments had increased from the previous month.

**The Board unanimously approved the schedule of Retirements Granted. Motion by Mr. Martin, seconded by Mr. Cohen.**

(b) Report on Waivers

Mr. Hohrein stated that no new waivers had been signed. He also reported that he had asked about waivers for Chuck Ward, as requested by Ms. Mayr. He reported that the County Executive's office had not received waivers from Mr. Ward.

The Board discussed the list of signed waivers that Mr. Hohrein presented. The members noted that some entries on the list did not include the dates that the waivers were signed. Ms. Mayr asked Mr. Hohrein to gather the correct dates. The Chairman pointed out that the Board merely accepted the waivers presented and that the ERS staff had not taken on the task of monitoring County departments. Ms. Mayr stated her opinion that ERS's cash liquidity could be affected and pension assets could be reduced by a member's failure to waive the back DROP.

5. Cash Liquidity Report

Mr. Hohrein reported that there had been no change in ERS's liquidity needs and that a payment of \$7,735,000 had been received from the County.

6. Discussion of Vice Chairperson

The Chairman proposed that the Board elect a Vice Chairperson to run Board meetings in his absence and assist with setting the agenda.

**The Board agreed to create the Vice Chairperson position, with duties to include attending the agenda-planning meeting. Motion by Mr. Cohen, seconded by Ms. Mayr. The Board unanimously approved the motion.**

Mr. Grady indicated that his research had shown that there is historical precedent for the Vice Chairperson position and the Vice Chairperson has traditionally been an elected member.

**The Board elected Mr. Martin as the Vice Chairman. Motion by Mr. Ostermeyer, seconded by Mr. Cohen. The Board unanimously approved the motion.**

7. Implementation of New Technology Software—Vitech Systems

Ms. To and Mr. Rodriguez distributed a report on the status of the V3 Project implementation. They indicated that the discovery phase was approximately 90% complete and the solutions design phase was approximately 20% complete, but that the entire project was now estimated to be three months behind schedule. Mr. Rodriguez relayed his concerns that the delay might cause ERS to have to use the Genesys system into another year and pay an additional license fee. Mr. Rodriguez indicated that Vitech and the Retirement Office were working together to avoid future delays. Ms. To indicated that assistance of Retirement Office staff is crucial to implementing the system.

Mr. Rodriguez also reported on the status of the Solution Delivery-Imaging/Backfile phase, which is the process of scanning and storing documents on the new system. Mr. Hohrein explained that the number of images to be scanned has doubled and the cost has increased accordingly.

In response to a question from the Chairman regarding the date of the license expiration, Ms. To indicated that they were negotiating an extension of the license with Genesys because the system would be needed to issue Form 1099s. She noted that the Vitech system would have to be online in November 2007 to avoid the need for an extension.

The Chairman directed that all future Vitech reports identify and describe in writing the proposed solutions and action plans for any problems, concerns, issues or reasons why the project is behind schedule.

Dr. Roepke reported that he and Mr. Parish had attended Vitech's technical viewing presentation and noted that the ERS group had been very happy with it. Dr. Roepke also suggested that the Retirement Office could try to retain Ms. Morris as a consultant to have the benefit of her knowledge after her retirement

and during the Vitech transition period. Mr. Hohrein agreed to approach her if necessary.

8. Possible Vendor Payment of Annual Meeting Expenses—Mark Grady

Mr. Grady presented a memorandum outlining his conclusion that it would be a violation of the County Ethics Code to accept payment from a service provider for the cost of food and beverages provided to attendees at the Pension Board's annual meeting. The Board discussed whether it would be a concern if the service provider had no influence over the Board and whether such sponsorship by a service provider would appear to be improper. The Board also discussed the idea of having non-ERS related businesses sponsor the meeting for their own advertising purposes. The Chairman requested comments from the retirees present. Mr. Howden and Mr. and Mrs. Metz opined that the Board should not pursue sponsorship to avoid any appearance of an ethical issue.

9. Investments

(a) Investment Committee Report

Mr. Hohrein presented the minutes of the May 4, 2006 Investment Committee meeting. He noted that the Committee had discussed the small cap value manager search and that Mercer had recommended the Board consider Opus Capital Management, AQR Capital Management and Integrity Asset Management to replace Ariel. The Committee had also discussed performing due diligence on each prospective manager by visiting the manager's office.

Ms. Finney-Cooke described for the Board Mercer's manager selection and rating process for the small cap value manager search. She explained that the process includes screening Mercer's database, conducting due diligence, performing a quantitative analysis, assessing ERS's criteria and interviewing finalists. Mr. Blalock reminded the Board that investment windows may close quickly and suggested that the Board may be able to limit transaction costs if it transfers funds directly to a new manager instead of to the Mellon Index.

**The Board accepted the recommendation of Mercer to proceed on due diligence with respect to Opus, AQR and Integrity as potential replacements for Ariel as U.S. equity small cap manager. Motion by Mr. Cohen, seconded by Mr. Martin. The Board unanimously approved the motion.**

The Chairman directed Mercer to promptly schedule due diligence trips. The Board discussed arrangements for the trips.

Mr. Blalock reported that the Investment Committee had also discussed ING Clarion's request to amend its agreement benchmark with ERS from the Dow Jones Wilshire Real Estate Securities Index ("WRESI"), to the MSCI US REIT Index ("MSCI"). ING based its request on its conclusion that the MSCI index is more representative, more inclusive and less volatile, and its administration is more consistent. Mr. Blalock stated that Mercer supported the change because the MSCI is a better index and many other managers have changed. Ms. Riley stated that she had reviewed and approved the proposed amendment.

**The Board agreed to amend the investment policy, as suggested by Mercer, to use MSCI as the benchmark for the ING REIT. Motion by Mr. Martin, seconded by Mr. Parish. The Board unanimously approved the motion.**

(b) Mercer Report

Mr. Blalock presented the flash report for April 2006. He reported that ERS had an aggregate market value of approximately \$1.6 billion at the end of April. The fund gained 1.1% in April and trailed the Reference Index by 10 basis points.

Mr. Blalock noted that ERS is currently overweight in mid cap equity and high yield fixed income and underweight in core fixed income relative to the Board's new investment policy. He recommended that the Board rebalance the mid cap equity allocation by liquidating \$6 million from Hotchkis & Wiley, \$6 million from Artisan and \$3 million from EARNEST Partners and transferring those assets into the Mellon Lehman Brothers Aggregate Index Fund. Mr. Blalock also recommended that the Board transfer \$30 million from the Loomis Sayles High Yield account to the Loomis Sayles Core Fixed Income Account over the next several months at times Loomis selects based on market conditions.

**The Board accepted Mercer's recommendation to rebalance the mid cap equity portfolio by moving \$6 million from Hotchkis & Wiley, \$6 million from Artisan and \$3 million from EARNEST to the Mellon Lehman Brothers Aggregate Index Fund. Motion by Mr. Martin, seconded by Ms. Mayr. The Board unanimously approved the motion.**

10. Audit & Compliance Committee Report

The Chairman presented the minutes of the April 27, 2006 Audit & Compliance Committee meeting. He reported that the Committee had discussed its duties and responsibilities and had scheduled a regular committee meeting for the last Thursday of each month.

11. Review Assumptions and ASOP 27—Buck Consultants

Ms. Nicholl, Mr. Strom and Mr. Sydyak presented to the Board on behalf of Buck Consultants. Their presentation focused on Actuarial Standard of Practice ("ASOP") 27, which provides guidelines for selecting the assumptions for the valuation of ERS. They explained that ASOP 27 outlines the process of selecting assumptions regarding inflation, investment return and salary increases. They also provided a general overview of the process of selecting the assumptions and described considerations when selecting the assumptions.

The Board discussed the 2005 chronology for the valuation report and the status of the 2006 report. Mr. Grady noted that the Board generally provides an estimate to the County Executive by June 1. He indicated that this year's estimate would be slightly later than that. The Board agreed to address valuation and contribution issues at the June 21 meeting. The Chairman confirmed that the Board would take more time to establish a contribution amount if necessary to be accurate. Ms. Mayr suggested putting the reasons for the delay in writing to the County Executive.

12. Administrative Matters—Continuing Education/Board Retreats/Training & Professional Organizations

**The Board approved attendance at the Adams Street Partners client presentation for all Board members who would like to attend. Motion by Dr. Roepke, seconded by Mr. Cohen. The Board unanimously approved the motion.**

The Board discussed meeting expense reimbursement and whether members would be reimbursed for committee meetings. Mr. Grady indicated that attendance at subcommittee meetings for all County-created committees is excluded from reimbursement. Mr. Martin opined that members should be reimbursed for committee meetings as well, because the purpose of reimbursement is to cover costs of transportation. Mr. Ostermeyer inquired about reimbursement for employee members. The Board agreed to put this issue on a future agenda.

13. Closed Session

The Chairman stated that the Board could enter closed session for considering financial, medical, social or personal information, of which the Board has actual knowledge and which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of the person mentioned. For example, the Board may elect to enter closed session to discuss an individual's disability retirement application, which may entail discussion of, among other things, medical records of the applicant.

The Chairman also noted that the Board would enter closed session to confer with its legal counsel, who is rendering oral or written advice concerning strategy to be adopted with respect to litigation in which it is likely to become involved.

The Board unanimously agreed by roll call vote to enter closed session to consider Items 14 and 15. Motion by Dr. Roepke, seconded by Mr. Parish.

14. Disability Applications – Kimberly Alberti (Accidental)

Upon returning to open session after considering Items 14 and 15, the Board took the following action:

**The Board, with Mr. Ostermeyer not in attendance, accepted the Medical Board's recommendation that an accidental disability pension be granted to Kimberly Alberti. Motion by Dr. Roepke, seconded by Mr. Parish. The Board unanimously approved the motion.**

15. Legal Update

The Board addressed this item in closed session.

16. Adjournment

The meeting adjourned at 1:05 p.m.

Submitted by Steven D. Huff,  
Assistant Secretary to the Pension Board